

Message Text

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PAGE 01 MOSCOW 10977 121722Z

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TAGS: ETRD, EGEN, UR, PL, HU, RO, COMECON

SUBJECT: SOVIET ECONOMIST COMMENTS ON INFLATION, PRICE RISES
AND ECONOMIC REFORM IN EASTERN EUROPE

REF: (A) MOSCOW 10165, (B) WARSAW A-214

1. INTRODUCTION AND SUMMARY. IN RECENT ISSUE OF SOVIET
WEEKLY NEWSPAPER ZA RUBEZHOM SOVIET ECONOMIST AND TOP
CEMA STRATEGIST O.T. BOGOMOLEV DISCUSSES CEMA COUNTRY ECONOMIC
DEVELOPMENT PROBLEMS AND MENTIONS 1975 RETAIL PRICE
INCREASES IN YUGOSLAVIA, HUNGARY AND POLAND. HE ATTRIBUTES
THE POLISH AND HUNGARIAN PRICE INCREASES TO "DELIBERATE
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PAGE 02 MOSCOW 10977 121722Z

ECONOMIC MANIXEEEING" BY THEIR GOVERNMENTS IN AN ATTEMPT

TO "STIMULATE AND RATIONALIZE THE DEMAND STRUCTURE" AND CONCLUDES THAT EE ECONOMIC DIFFICULTIES CAN ONLY BE SOLVED BY TIGHTER INTEGRATION OF PLANNING AND ECONOMIC MANAGEMENT. GIVEN BOGOMOLOV'S IMPORTANT POSITION AS CHIEF OF MAIN SOVIET INSTITUTE CONCERNED WITH ECONOMIC RELATIONS WITH EASTERN EUROPE, THESE COMMENTS APPEAR AS LOW-KEY ADMONITION TO BOTH POLES AND HUNGARIANS THAT SOVIET SYSTEM IS BEST AND EXPERIMENTATION WITH "ECONOMIC REFORM" IS A FUTILE EXERCISE. A SIMILAR APPROACH WAS TAKEN BY A MEMBER OF BOGOMOLOV'S INSTITUTE DURING A RECENT DISCUSSION WITH AN EMBASSY OFFICER REGARDING THE POLISH GOVERNMENT'S ATTEMPT TO RAISE FOOD PRICES. END

INTRODUCTION AND SUMMARY.

2. BOGOMOLOV LEADS UP TO SUBJECT OF INCREASED EE PRICES WITH A RATHER CANDID AND VERY TECHNICAL DISCUSSION OF THE ECONOMIC PROBLEMS WHICH ARE HAMPERING DEVELOPMENT IN CEMA COUNTRIES, ALTHOUGH HE IS CAREFUL TO POINT OUT THAT THEY ARE NOT AS SEVERE AS THE CRISES WHICH AFFLICT CAPITALIST ECONOMIES. HE DESCRIBES THEM AS (A) FAILURE TO FULFILL PLANNED TARGETS FOR INDUSTRIAL CAPACITY; (B) INSUFFICIENT FUNDING FOR CONSTRUCTION; (C) TOO MUCH UNCOMPLETED CONSTRUCTION OVER LONG PERIODS OF TIME; AND (D) FAILURE TO INTRODUCE AND MASTER NEW TECHNOLOGY AND NEW PROCEDURES QUICKLY ENOUGH. HE ALSO NOTES THAT THE RATE OF ECONOMIC DEVELOPMENT HAS BEEN FASTEST IN POLAND AND ROMANIA, BOTH COUNTRIES WHICH STILL HAVE "CERTAIN RESERVES FOR EXTENSIVE GROWTH."

3. BOGOMOLOV CITES THE SIGNIFICANCE OF "EXTENSIVE DEVELOPMENT FACTORS" AS A PRIMARY CAUSE OF DIFFICULTIES IN CEMA-COUNTRY ECONOMIES

WHY? BECAUSE THESE COUNTRIES ARE FACED WITH A TUG-OF-WAR SITUATION-- THE CONFLICT BETWEEN A STEADY INCREASE IN NATIONAL ECONOMIC REQUIREMENTS AND ALSO IN CONSUMER DEMAND AS A RESULT OF RISING LIVING STANDARDS AND, ON THE OTHER SIDE, A LACK OF SUFFICIENT RESOURCES. THIS LACK OF RESOURCES INCLUDES LABOR SHORTAGES AND DEFICITS IN FUEL, RAW MATERIALS, CHEMICAL AND MACHINE PRODUCTION AND ALSO IN GOODS WHICH CAN BE EXPORTED. FINALLY, THERE IS THE PROBLEM OF COPING WITH RAPIDLY INCREASING CONSUMER PURCHASING POWER.

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PAGE 03 MOSCOW 10977 121722Z

4. THESE SHORTAGES AND DEFICITS ARE, OF COURSE, NOT A NEW PROBLEM ACCORDING TO BOGOMOLOV. THEY ARE PARTLY THE INEVITABLE RESULT OF THE RAPID PACE OF ECONOMIC CONSTRUCTION AND "THE FAST PULSE OF ECONOMIC LIFE." HOWEVER, HE ADDS, "IN A NUMBER OF COUNTRIES THERE IS A TENDENCY FOR PRICES TO INCREASE." IN 1975 RETAIL PRICES IN YUGOSLAVIA INCREASED BY 25 PERCENT, IN POLAND FROM FIVE TO EIGHT PERCENT AND IN HUNGARY BY THREE PERCENT."

5. BOGOMOLOV THEN EXPLAINS WHAT HAPPENED IN POLAND AND HUNGARY. IN THESE TWO COUNTRIES "THE INCREASES WERE IN SIGNIFICANT MEASURE DUE TO DELIBERATE ECONOMIC MANEUVERING (SOZNATEL'NOGO EKONOMI-CHESKOGO MANEVRA) TO INVOKE THE POSSIBILITY OF MATERIAL STIMULATION AND RATIONALIZATION OF THE DEMAND STRUCTURE."

6. THE REMAINDER OF THE ARTICLE IS A LENGTHY EXPLANATION OF WHAT MUST BE DONE TO OVERCOME THESE "MANIFESTATIONS OF IMBALANCES IN SOCIALIST ECONOMIES." THE ANSWER, SAYS BOGOMOLOV, IS BETTER PLANNING AND MANAGEMENT, TIGHTER CONTROL AND - AS MIGHT BE EXPECTED - INTENSIVE, LONG-RANGE PLAN COORDINATION THROUGH THE YEAR 1990. THIS PLAN COORDINATION WILL BE AT THE "INTER-BRANCH AND PROGRAM LEVEL."

7. COMMENT. THESE REMARKS TAKE THE SAME LINE AS THOSE MADE TO AN EMBASSY OFFICER BY A SENIOR ECONOMIST IN BOGOMOLOV'S INSTITUTE (WORLD SOCIALIST ECONOMY) ON JUNE 25 DURING A DISCUSSION OF THE DISTURBANCES IN POLAND OVER ATTEMPTED PRICE INCREASES (REF A). ALTHOUGH THEY ARE SANDWICHED INTO A LONG ARTICLE LAUDING THE DYNAMIC ACHIEVEMENTS OF CEMA IN RECENT YEARS - PART OF A PRESS BUILD-UP FOR THE CEMA COUNCIL MEETING IN EAST BERLIN - THEY NEVER-THELESS CONSTITUTE A PUBLIC, LOW-KEY CRITICISM OF POLISH AND HUNGARIAN INTEREST IN TRYING TO "EXPERIMENT" WITH "ECONOMIC REFORM." (WE USE QUOTATION MARKS SINCE NEW ECONOMIC MECHANISM IS PROBABLY THE CORRECT TITLE IN HUNGARY AND IN POLAND THE TERM IS NOT USED AT ALL ACCORDING TO WARSAW'S REPAIR).

8. EVEN THOUGH THIS CRITICISM IS LOW-KEY AND OBSCURE, IT NEVERTHE-LESS SIGNIFICANT GIVEN BOGOMOLOV'S IMPORTANT POSITION AS HEAD OF THE SOVIET INSTITUTE MOST DIRECTLY CONCERNED WITH PLANNING AND POLICY IMPLEMENTATION FOR CEMA. HIS COMMENTS ON RISING PRICES IN EASTERN EUROPE ARE ALSO INTERESTING SINCE THIS IS A SUBJECT RARELY

CONFIDENTIAL

PAGE 04 MOSCOW 10977 121722Z

MENTIONED IN THE SOVIET PRESS.

9. FINALLY, WE NOTE THAT THE INCLUSION OF YUGOSLAVIA SERVES A DOUBLE PURPOSE. BY BEING LUMPED TOGETHER WITH POLAND AND HUNGARY, YUGOSLAVIA APPEARS BY IMPLICATION TO BE PRACTICALLY A MEMBER OF CEMA, DESPITE BELGRADE'S INSISTENCE THAT IT IS NOT. AND YUGOSLAVIA'S VERY HIGH INFLATION RATE OF 25 PERCENT GIVES SOVIET (AND PERHAPS HUNGARIAN AND POLISH) READERS A HORRIFYING EXAMPLE OF WHAT CAN HAPPEN TO A "SOCIALIST COUNTRY" WHEN "ECONOMIC REFORM" GETS OUT OF CONTROL AND MOVES INTO THE TREACHEROUS WATERS OF DECENTRALIZATION AND WORKER SELF-MANAGEMENT. MATLOCK

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